

Message Text

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44

ACTION ARA-10

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 PA-01 PRS-01 L-03 H-02 /085 W

----- 100629

R 271410Z AUG 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 1160

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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E. O. 11652: N/A

TAGS: EFIN, BR

SUBJ: CRUZEIRO DEVALUATION AND EXPORTS IN JULY

REF: BRASILIA 6536

1. SUMMARY: THE CRUZEIRO WAS DEVALUED FOR THE SECOND TIME IN AUGUST. INDICATIONS ARE CLEAR THAT THE MONETARY AUTHORITIES HAVE ACCELERATED THE PACE OF CRUZEIRO DEVALUATIONS. THE EXPORT PERFORMANCE IN JULY WAS BELOW EXPECTATIONS AND GOVERNMENT OFFICIALS ARE NOW PREDICTING THAT TOTAL EXPORTS IN 1975 WILL NOT REACH THE OFFICIALLY SET \$10 BILLION TARGET. END SUMMARY.

2. CENTRAL BANK ANNOUNCED, EFFECTIVE AUGUST 25, THE NINTH DEVALUATION OF THE CRUZEIRO OF THE YEAR. WITH THE LATEST CHANGE OF 0.911 PERCENT, THE CUMULATIVE DEPRECIATION FOR 1975 REACHED 12.37 PERCENT. NEW RATES ARE CR\$8.310 PER U.S. DOLLAR FOR BUY AND CR\$8.350 PER U.S. DOLLAR FOR SELL.

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3. ACCORDING TO DATA PUBLISHED BY CACEX, EXPORTS

IN JULY AMOUNTED TO \$761 MILLION, BRINGING TOTAL EXPORTS IN 1975 THROUGH JULY TO \$4,944 MILLION. THE JULY 1975/JULY 1974 INCREASE WAS 18 PERCENT, WHILE THE JAN-JULY 1975/JAN-JULY 1974 RISE WAS 33 PERCENT.

COMMENT

4. THE LATEST DEVALUATION OF THE CRUZEIRO CAME 20 DAYS AFTER THE LAST ONE AND NOT SINCE JUNE 1974 HAD THERE BEEN TWO DEVALUATIONS IN SAME MONTH. THE CUMULATIVE DEVALUATION OF 12.37 PERCENT THROUGH AUGUST 25 COMPARES WITH 12.94 PERCENT THROUGH AUGUST 15, 1974, WHICH INDICATES THAT IN ABSOLUTE TERMS THERE HAS BEEN TO DATE LITTLE CHANGE IN THE RATE OF DEVALUATIONS DURING 1975. HOWEVER, WHEN THE 1975 AND 1974 DEVALUATION RATES ARE COMPARED WITH THE INTERNAL RATES OF INFLATION -- A COMPARISON WHICH IS A KEY VARIABLE IN THE DETERMINATION OF THESE PERIODIC CHANGES IN THE CRUZEIRO RATE--IT BECOMES CLEAR THAT THE AUTHORITIES HAVE INCREASED THE PACE OF EFFECTIVE DEVALUATIONS DURING 1975. LAST YEAR THROUGH THE END OF AUGUST THE RATE OF INTERNAL INFLATION (AS MEASURED BY THE GUANAB COST-OF-LIVING INDEX) WAS 24.9 PERCENT, AND THE CUMULATIVE DEVALUATION 12.94 PERCENT (AS OF AUGUST 15). THIS YEAR THROUGH THE END OF JULY (BASED ON THE LATEST INFORMATION AVAILABLE) THE INFLATION RATE WAS 16.4 PERCENT AND THE CUMULATIVE DEVALUATION 12.37 PERCENT. THEREFORE, THE DIFFERENCE BETWEEN THE INTERNAL INFLATION AND THE CRUZEIRO DEVALUATION THROUGH AUGUST LAST YEAR WAS 11.96 PERCENT AND THIS YEAR ONLY 6.03 PERCENT (ASSUMING A RATE OF INFLATION IN AUGUST OF 2.0 PERCENT). UNDER THE BRAZILIAN FORMULA OF PERIODIC MINI-DEVALUATIONS, THE DIFFERENCE BETWEEN INTERNAL INFLATION AND THE CRUZEIRO RATE CHANGE IS SUPPOSED TO REFLECT THE AVERAGE INFLATION RATE IN BRAZIL'S PRINCIPAL TRADING PARTNERS. INDICATIONS ARE THAT SO FAR THIS YEAR THE AVERAGE RATE OF INFLATION IN THESE OTHER COUNTRIES HAS BEEN WELL ABOVE 6.03 PERCENT (THE DIFFERENCE BETWEEN BRAZIL'S TOTAL INTERNAL LIMITED OFFICIAL USE

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INFLATION AND THE CUMULATIVE CRUZEIRO DEVALUATION), INDICATING THAT THE EFFECTIVE PACE OF DEVALUATION HAS IN FACT BEEN INCREASED.

5. ON THE EXPORT FRONT, THE JULY PERFORMANCE WAS A DISAPPOINTMENT. THE AUTHORITIES WERE HOPING THAT THE ANTICIPATED IMPROVEMENT EXPECTED DURING THE SECOND HALF WOULD HAVE BEGUN IN JULY, WITH

TOTAL EXPORTS REACHING PERHAPS THE \$1.0 BILLION MARK FOR THE MONTH. IN FACT, IT FELL \$240 MILLION SHORT OF THIS DESIRABLE GOAL. AS A RESULT, FOR EXPORTS TO REACH THE \$10.0 BILLION OFFICIALLY-SET TARGET FOR 1975, THE MONTHLY AVERAGE FOR THE NEXT FIVE MONTHS WOULD HAVE TO BE \$1.0 BILLION. GIVEN THE BEHAVIOR OF EXPORTS SO FAR THIS YEAR, HOWEVER, THIS IS MOST UNLIKELY, AND THE AUTHORITIES HAVE PUBLICLY RECOGNIZED THIS IMPOSSIBILITY. AFTER THE JULY RESULTS BECOME AVAILABLE, THE HEAD OF CACEX WAS QUOTED AS SAYING THAT EXPORTS IN 1975 WILL NOT SURPASS \$9.5 BILLION, WHILE A "HIGH GOVERNMENT SOURCE" WAS QUOTED AS STATING THAT THE FIGURE WILL BE BETWEEN \$8.5 AND \$9.0 BILLION.

CRIMMINS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, DEVALUATIONS, FOREIGN EXCHANGE RATES
Control Number: n/a
Copy: SINGLE
Draft Date: 27 AUG 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BRASIL07468
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750296-1196
From: BRASILIA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750811/aaaaaivs.tel
Line Count: 130
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 BRASILIA 6536
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 04 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <04 SEP 2003 by CunninFX>; APPROVED <26 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CRUZEIRO DEVALUATION AND EXPORTS IN JULY
TAGS: EFIN, BR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006